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978-1-107-06413-3 - Léon Walras, Elements of Theoretical Economics or the Theory of Social Wealth

Translated and Edited by Donald A. Walker and Jan van Daal

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THEORY OF SOCIAL WEALTH

PART I

OBJECT AND DIVISIONS OF
ECONOMICS

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LESSON 1

Adam Smith's and J.-B. Say's definitions

SUMMARY: – Two-fold objective assigned to economics: 1° To provide the people with an income or an abundant level of living; 2° To furnish the State or the community a sufficient income. First observation. Two goals, equally important, but neither of which is the object of a proper science. There is another point of view for economics. Second observation. Two operations equally important, but of a different character, one a matter of economic advantageousness and the other a matter of justice.

Economics envisaged as the simple exposition of the manner in which wealth is produced, distributed, and consumed. Naturalist point of view, permitting an easy refutation of socialism, but which is inaccurate if applied to the entire science. In regard to the production and distribution of wealth, humans are led to choose one or another combination, not on the grounds of what is most natural, but on the grounds of what is most useful or most equitable.

1. The first thing to be done at the beginning of a course or treatise on economics is to define the science, its object, divisions, nature, and limits. I have no thought of evading this obligation; but I must warn that it is longer and more difficult to fulfill than perhaps is supposed. We lack a definition of economics. Of all the definitions that have been proposed, not one has met with the general definitive acceptance that is the sign of truths acquired by science. I shall quote and criticize the most interesting of these definitions, and I shall try to provide one. In the course of this task, I shall find occasion to mention certain names, titles of books, and dates that should be known.

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2. Quesnay and his disciples are the first important group of economists. They have a common doctrine; they form a school. They themselves call their doctrine *Physiocracy*; that is to say, the natural government of society; and that is why they are known today as Physiocrats. Apart from Quesnay, who wrote the *Tableau économique* (1758), the principal Physiocrats are Mercier de la Rivière, author of *Ordre naturel et essentiel des sociétés politiques* (1767), Dupont de Nemours, author of *Physiocratie ou constitution naturelle du gouvernement le plus avantageux au genre humain* (1767–1768), the abbé Baudeau, and Le Trosne. Turgot is in a separate category. It can be seen from the titles of their works that the Physiocrats enlarged rather than narrowed the domain of the science. The theory of the natural government of society is not so much economics as it is social science. The term Physiocracy therefore implies too wide a definition.

3. Adam Smith in his *Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1776, was the first to try, with remarkable success, to arrange the subjects of economics into an organized discipline. It was not, however, until the beginning of the introduction to Book IV of that work, a Book titled ‘Of Systems of Economics’, that it occurred to him to provide a definition of the science, and this is the one he gave: – ‘Economics,’ he said, ‘considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.’ That definition, given by the person who has been called the father of economics, not at the beginning but towards the middle of his work, at a point at which he should have had a complete understanding of his subject, deserves careful consideration. It seems to me that it gives rise to two principal observations.

4. To provide a plentiful income for the people, to supply the State with a sufficient income, is assuredly a very important double-faceted goal, and if economics helps to achieve it, it renders us a signal service. But I do not see, however, that that constitutes the object of

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a science properly speaking. Indeed the characteristic of a science properly speaking is the complete indifference to any consequences, advantageous or undesirable, of its attachment to the pursuit of pure truth. Thus when the geometer enunciates that an *equilateral triangle is at the same time equiangular*, and when the astronomer enunciates that *the planets move in an elliptical orbit of which the sun occupies one of the foci*, they are doing science properly speaking. It is possible that the first of these two truths, like the other truths of geometry, may lead to results that are valuable for carpentry, stone cutting, and every type of architecture or construction of houses; it is possible that the second truth and the entirety of astronomical truths may be of the greatest help to navigation; but neither the carpenter, nor the mason, nor the architect, nor the navigator, nor even those who work out the theories of carpentry, stone cutting, architecture, or navigation are scientists or do science in the true meaning of those words. Now, the two activities of which Adam Smith speaks are analogous, not to those of the geometer and the astronomer, but to those of the architect and the navigator. If, therefore, economics were what Adam Smith said, and if it were nothing else, it would certainly be a very interesting subject, but it would not be a science properly speaking. Thus it must be stated that economics is something other than what Adam Smith says. Before thinking of providing a plentiful revenue for the people, and before concerning itself with furnishing the State with an adequate income, the economist pursues and grasps purely scientific truths. That is what he does when he states, for example, that *the value of things tends to increase when the quantity demanded increases or when the quantity supplied decreases*, and that *this value tends to diminish in the two opposite cases*; that *the rate of interest falls in a progressive economy*; that *a tax levied on ground rent falls exclusively on the landowner without affecting the prices of agricultural products*. In all these cases, economists are doing pure science. Adam Smith himself did this. His disciples, Malthus and Ricardo, the former in his *Essay on the Principles of Population* (1798) and the latter in his *Principles of Political Economy and Taxation* (1817), did even more. Adam Smith's definition is therefore incomplete in that it fails to mention the aim of economics considered as a science strictly speaking. To say, in effect, that the objective of economics is to provide a plentiful income for the people and to furnish the State with an

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adequate income is like saying that the object of geometry is to build solid houses, and that the aim of astronomy is to navigate the seas safely. It is, in a word, to define a science in terms of its applications.

5. That first observation about Adam Smith's definition relates to the objective of the science; I have another, no less important, observation to make relative to its character.

To provide a plentiful income for the people and to furnish the State with a sufficient income are two equally important, equally delicate operations, but having a very different character. The first consists in providing agriculture, industry, and trade with various determinate conditions. According as these conditions are favorable or unfavorable, the agricultural, industrial, and commercial production will be plentiful or restricted. Thus, in past times it has been seen that industry suffered and stagnated under a regime of associations of artisans, guilds, regulations, and price fixing; it is seen today that under the opposite regime of freedom of work and of trade, industry grows and prospers. It was 'so much the worse' in the former case and 'it is all the better' in the second case; but, in each of them, it is only economic advantageousness that is frustrated or favored; it is not justice that is attained or respected. Matters are quite otherwise when it is a question of supplying the State with sufficient income. That case is, in effect, an operation that consists in deducting from individual incomes the amount necessary to provide the income of the community. But, according to whether the conditions are good or bad, it happens not only that the income of the State is sufficient or insufficient, it happens in addition that individuals are treated equitably or inequitably; equitably if each contributes his share, inequitably if some are sacrificed while others are privileged. Thus, there were formerly seen to be classes of society that were exempt from taxes that weighed exclusively on certain other classes. It is considered today that that was a flagrant injustice. Thus, to obtain a plentiful income for the people is a useful activity, and to furnish the State with a sufficient income is an equitable activity. Usefulness and equity, economic advantageousness and justice, are two very different orders of consideration, and it could be wished that A. Smith had made this difference clear by saying, for example, that the objective of economics is to indicate the conditions first for the production of a *plentiful*

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social income, and then for an *equitable* division of this income between individuals and the State. That definition would be better, but it would still leave out the truly scientific part of economics.

6. Jean-Baptiste Say, who, in chronological order, is, after Adam Smith, the most illustrious name in economics, said of his predecessor's definition: 'I would rather say that the objective of economics is to make known the means by which wealth is produced, distributed, and consumed.' And, indeed, his work, the first edition of which appeared in 1803, while the second, banned by the Consulate censorship, could not be published until after the fall of the First Empire, is titled *Traité d'économie politique, ou simple exposition de la manière dont se forment, se distribuent et se consomment les richesses*. This definition and the divisions that it establishes have been very generally approved and adopted by economists. It is surely those that one would be most tempted to consider as classic. But I ask permission not to side with that opinion, and to do so precisely on the grounds that have made them successful.

7. It is evident at first glance that J.-B. Say's definition is not only different from Adam Smith's, but that it is, in a certain sense, the complete opposite. While, if Adam Smith is to be believed, the whole of economics is an *art* rather than a *science* (§ 4), according to J.-B. Say, the whole of the science is a *natural* science. It seems, according to him, that the *production, distribution, and consumption* of wealth take place, if not completely independently, at least in a *manner* in some way independent of the human will, and that all of economics consists in a *simple exposition* of that manner.

What has seduced economists in this definition is precisely the appearance of a natural science that it gives to the whole of economics. That point of view, in fact, has singularly aided them in their fight against the socialists. Every plan of organization of work, every plan of organization of property was rejected by them a priori and, so to speak, without discussion, not as being contrary to economic advantageousness, nor as contrary to social justice, but simply as an artificial scheme designed to replace a natural scheme. And what is more, this naturalistic viewpoint was borrowed from the Physiocrats by J.-B. Say and was inspired by the formula: *Laissez faire, laissez*

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passer that summarizes their doctrine in regard to industrial and commercial activity. That is what earned the school of economists the epithet *fatalistic* given by Proudhon, and it is hard to believe, in fact, the point to which that school has pushed its consequences. It is necessary, in order to become aware of that, to read certain articles in the *Dictionnaire de l'économie politique*, such as Charles Coquelin's 'Concurrence', 'Économie politique' and 'Industrie', or Mr. Andre Cochut's 'Morale'; very meaningful passages are to be found in these articles.

Unfortunately, the indicated point of view is as false as it is convenient. If men were only a superior species of animal, were only bees undertaking instinctively their work and their habitual ways, it is certain that the exposition and explanation of social phenomena in general, and of the phenomena of production, distribution, and consumption of wealth in particular, would be a natural science that would not be, to speak accurately, other than a branch of natural history, the natural history of man following that of the bee. But matters are quite different. Man is a creature endowed with reason and freedom, capable of initiative and progress. In regard to the production and distribution of wealth, and generally in all matters of social organization, he has the choice between that which is good and that which is not, and increasingly turns from the latter to the former. Thus man has progressed from a system of guilds, trade regulations, and price fixing to a system of liberty of industry and commerce, to the system of *laisser faire* and *laisser passer*, from slavery to serfdom, from serfdom to the wage system. The more recent forms of organization are superior to the earlier forms not because they are more natural (both are artificial, and the newer one even more so than the older ones, because they appeared only subsequent to them), but because they are more in conformity with economic advantageousness and justice. It is only after a demonstration of this conformity that *laisser faire*, *laisser aller* must be adopted. And, if that can be demonstrated, it is on the grounds of being contrary to economic advantageousness and justice that socialist schemes should be rejected.

8. Inferior to Adam Smith's definition, which was only incomplete, J.-B. Say's is therefore incorrect. I add that the divisions of the subject

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that follow from Say's definition are completely empirical. The theory of property and the theory of taxation, which are in reality only the two halves of the theory of the distribution of wealth among the people in human society, considered first in isolation as individuals and then collectively as the State, and which are both dependent so essentially on moral principles, are separated and rejected, the first, that of property, in the theory of production, and the other, that of taxation, in the theory of consumption, and are both elaborated exclusively from the economic point of view. The theory of value in exchange, which, on the contrary, has so clearly the character of a study of natural phenomena, is made part of the theory of distribution. It is true that his disciples interpret it as they please, using these arbitrary classifications, and, no less arbitrarily, some classify the theory of value in exchange under the theory of production while others classify the theory of property under the theory of distribution. That is the sort of economics that is done and taught today; but is it not justified to say that in that sort of economics there are only broken structures, of which just the façade remains, and that, given the existence of such a state of affairs, the right and the duty of the economist is to formulate carefully the philosophy of the science?

9. The defect of J.-B. Say's definition has nevertheless been glimpsed by some of his students, but they have not remedied it. Adolphe Blanqui wrote:

In Germany and France, economists have strayed furthest from the true field that today is generally assigned to economics. Some economists have attempted to make it a universal science; others have tried to restrict it to a narrow scope and popularized content. The struggle in France between these two extreme opinions turns upon the question whether economics should be considered as the statement of what is or as an agenda of what ought to be; that is to say, as a natural science or a moral science? We believe that it partakes of both characters.

It is in this way, an excellent means of condemning it, that Blanqui approves of J.-B. Say's definition.

Subsequent to Blanqui's writings, Joseph Garnier wrote that

economics is both a natural and a moral science; from these two points of view, it sets forth that which is and that which ought to be according to the natural course of things and in conformity with the idea of justice.

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Consequently, Garnier proposes a modification of J.-B. Say's definition by making a slight addition to it by saying that

economics is the science of wealth; that is to say, the science that has as its goal to determine how most rationally (naturally, equitably) wealth *is* and *ought to be* produced, exchanged, distributed, and used in the interest of individuals as well as in the interest of the whole society.

Garnier here makes a completely serious and truly praiseworthy effort to get out of the rut in which his school is stuck. It is strange, however, that he has not immediately recognized how the overlapping amalgam that he proposes of two definitions melded into one is bizarre and inconsistent. That is a curious example of a lack of philosophy that offsets and nullifies, in French economists, so many of their intellectual qualities, the principal ones of which are clarity and precision. How could economics be simultaneously a natural science and a moral science? And what is one to make of such a science? On the one hand, there would be a moral science with the aim of determining how wealth *ought to be* most equitably distributed, and on the other hand, there would be a natural science with the aim of determining how wealth *is* most naturally produced. Moreover, the latter would advantageously be replaced by an art, that of the abundant production of wealth. Taken all in all, J.-B. Say's definition leads us back, as can be seen, to Adam Smith's (§ 5), and, in this entire affair, the true natural science still escapes us.

We shall undertake to seek it on our own account. We are going to separate, if necessary, economics into a natural science, a moral science, and an art. And to do so, as a preamble, we are going to distinguish between science, art, and ethics.